

# **Final Report on the Costs and Benefits of Paid Family and Medical Leave in the District of Columbia**

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## EXECUTIVE SUMMARY

It has been more than 22 years since the federal Family and Medical Leave Act (FMLA) was signed and eligible workers received some job protections when they need to take time (up to 12 weeks) to care for their own health, a new child, or their families. FMLA does not require, however, that employers compensate their employees for this time. In three states – California, New Jersey, and Rhode Island – existing temporary disability insurance (TDI) systems were expanded to provide paid family leave through a social insurance program. In many state and local jurisdictions across the country, legislatures are considering proposals to provide paid family and medical leave, but few have TDI systems in place and would need to build a new social insurance system.

This report provides cost estimates for a series of policy scenarios for private employers in the District of Columbia and other employers of DC residents based on existing policy ideas and representing a range of eligibility criteria and benefit levels. It uses an existing simulation model that estimates leave-taking behaviors for workers and the characteristics of the leaves they take under different program designs. The costs of leaves are divided into three categories: costs of program benefits, wages paid by employers to the workers out on leave, and the value of uncompensated time for workers.

Policy scenarios are compared to a baseline model for the current policy climate, which is one where some workers receive compensation while taking leave, but there is no program benefit. We find that DC private employers pay about \$123.3 million per year for family and medical leaves taken by their employees, but private employees working in DC take the equivalent of \$415.2 million annually in uncompensated leave. Under the three alternative paid leave policy scenarios examined in detail in this report, the cost for the new wage replacement benefits ranges from \$30.8 million to \$150.9 million per year. These new benefits reduce the amount of uncompensated time taken by workers by at least \$10.6 million up to \$84.4 million.

The results highlight the importance of program design issues such as eligibility criteria, number of days or weeks benefits may be received, and reasons for accessing program benefits. More generous program designs perform better at reducing the levels of uncompensated leave taken by more vulnerable groups and reduce one aspect of labor market inequality. The report concludes with some additional notes on financing and cost estimates for program start-up and administration.

## **INTRODUCTION**

In September 2014 the U.S. Department of Labor Women's Bureau grant program awarded a total of \$500,000 to support paid leave feasibility studies in three states and the District of Columbia. These grants provided resources to research and analyze how paid leave programs can be developed and implemented. The goal was to improve workplace support for working families with policies that reflect the realities of the 21st Century workforce.

DC proposed to build on the experiences of states with established paid family leave programs (California, New Jersey, and Rhode Island), along with studies conducted by the federal government and other research institutions. The research is designed to contribute robust, actionable findings to the national, paid family leave conversation with three research goals:

### ***FINANCING AND BENEFIT MODELING***

IWPR modeled eligibility rules, program durations, and benefit levels to provide cost estimates for benefits in DC. Eligibility rules and benefit distribution modeling will dovetail with the economic impact analysis, as economic gains to workers and businesses are directly related to benefits built into the paid family leave program.

### ***ECONOMIC IMPACT ANALYSIS***

IWPR also provided distributional analyses of the impacts of a paid family and medical leave program on those working in DC by economic and demographic characteristics, such as age, gender, race and ethnicity, and family income. Previous research on the likely impacts of leave programs on workers was reviewed as a part of this effort.

### ***COST-BENEFIT STUDY***

Positive economic impacts on workers and businesses represent the societal benefits of the program, while the financing and paid benefit components of the program yield societal costs. This study explores the societal costs estimated in light of expected societal benefits and discusses how those might be distributed between stakeholders to maximize societal benefits.

## **PREVIOUS RESEARCH**

### ***Economic Benefits of Paid Leave***

Paid leave provides benefits for both employers and workers. Paid leave is associated with improved productivity, reduced employee turnover, improved morale, and increased employee loyalty (Milkman and Appelbaum 2013). Improved employee loyalty and retention are often substantial benefits to employers because they can ultimately reduce the excess costs of training and hiring new employees. A comprehensive literature review of 30 quantitative case studies on the cost of turnover estimated that the median cost to replace an employee is 21 percent of his or her salary (Boushey and Glynn 2012a).

For workers, paid leave is correlated with stronger labor force attachment (Rossin-Slater, Ruhm, and Waldfogel 2011) and greater economic security (Boushey and Glynn 2012b). Women who reported taking paid leave after the birth of a child were more likely to be working 9 to 12 months later compared to women who did not take leave at all (Sheperd-Banigan, M., and JF Bell 2014). Women who take paid family leave of 30 days or longer are also significantly more likely to report wage increases in the year following a child's birth than are women who take no leave at all (Houser and Vartanian 2012). Women who took paid family leave were 40 percent less likely to be receiving food stamps and 39 percent less likely to receive forms of public assistance in the year after the birth of a child than a woman who returned to work without taking leave at all (Houser and Vartanian 2012).

Research is also taking a closer look at the impact that paid leave, or the lack-there-of, has on working adults who are caring for older parents, disabled spouses, or children with chronic health issues or special health needs. The demands of caregiving significantly impact those employees' physical and mental health as well as their economic well-being (Earle and Heymann 2011). Adults who take unpaid leave to care for a parent have a significant effect on the economy. Based on the 2008 panel of the Health and Retirement Survey, the total aggregate amount of lost wages, pensions, and social security as a result of unpaid leave taken by caretakers across their lifetime is estimated to be about \$3 trillion (Metlife Mature Market Institute 2011). These lost wages experienced by caregivers disproportionately affect women compared with men over their lifetime.

Most workers will have caregiving responsibilities at one time or another or become injured or ill themselves. Access to paid leave can help reduce absenteeism in the long run, while it also increases employee morale and reduces turnover.

### ***Health Benefits of Paid Leave***

Access to paid time off to care for family members means working caregivers do not have to use their own sick leave or vacation leave to meet family needs. Paid leave allows caretakers peace of mind that they will be able to deal with any of their own health complications that may arise without losing pay. Earle and Heymann (2011) provide evidence that paid leave (both paid family leave and paid sick days) substantially or entirely offsets the negative mental and physical effects reported by people caring for children with special needs.

Several studies suggest that longer leaves from work after the birth of a child are correlated with improved maternal mental health, especially reductions in depressive symptoms and parenting stress. For example, Chatterji, Markowitz, and Brooks-Gunn (2013) find that among working mothers, the relationship between work hours and depression is primarily driven by women working full time during the 3 months after childbirth. Chatterji and Markowitz (2012) find women with a spouse that did not take leave after the birth of a baby experienced higher levels of depressive symptoms as new mothers. Any amount of work in the 3 months after childbirth is, however, associated with increased parenting stress (Chatterji et al. 2013).

Family leave following the birth of a child also has positive effects on the health of young children, rates of breastfeeding, and fathers' involvement with their babies (Gomby and Pei 2009). Evidence suggests that new mothers who choose to delay returning to work are likely to breastfeed for longer than new mothers who return to work within 1 to 6 weeks. Longer maternity leaves are associated with higher odds of breastfeeding among full-time workers, especially full-time workers who do not hold managerial positions, lack job flexibility, or experience psychosocial distress (Guendelman et al. 2009). Extending paid postpartum leave and flexibility in working conditions for women has positive effects on breastfeeding women (Guendelman et al. 2009).

Evidence suggests that paid leave may also improve utilization and compliance with well-baby preventive care recommendations. Mothers with access to some form of paid leave, most often paid vacation leave, took their children to more well-baby visits than other working mothers (Hamman 2011).

### ***Employer Experience with Leave Programs***

Most businesses (56 percent) covered by the federal FMLA report that dealing with planned longer-term family and medical leaves is either "very easy" or "somewhat easy" (Klerman et al. 2012). Research on California's paid family leave program (Appelbaum and Milkman 2011) finds that after more than five years' experience with paid family leave, the vast majority of employers reported that it had a minimal impact on their business operations. Most employers reported that paid family leave had either a "positive effect" or "no noticeable effect" on productivity, profitability/performance, turnover, and employee morale. Further, small businesses were less likely than larger establishments (those with more than 100 employees) to report any negative effects (Appelbaum and Milkman 2011). Based on in-depth interviews with employers in New Jersey, Lerner and Appelbaum (2014) conclude that the state's Family Leave Insurance program had little impact on employers' business practices following its implementation in 2009.

## **WORKER LEAVE IN THE DISTRICT OF COLUMBIA**

The District of Columbia has three leave policies already in effect. First, DC's Family and Medical Leave Act requires employers with 20 or more employees to provide the right to take up to 16 weeks of family leave and 16 weeks of medical leave in a 24-month period to their employees for the birth, adoption, or foster placement of a child; to care for a family member with a serious health condition; or the employee's own serious health condition. While DC's policy covers more workers and provides more time than the federal FMLA, it is similar to the FMLA in that it does not provide or require any wage replacement.

Second, under the Accrued Sick and Safe Leave Act of 2008, DC employers must provide eligible employees with 3 to 7 days of paid leave that can be used for the employee's or a family member's physical or mental illness, injury, or medical condition; time for the employee's or a family member's medical care, diagnosis, or preventive medical care; or time for the employee or a family member who is a victim of stalking, domestic violence, or abuse to get medical attention, use services, seek counseling, relocate, take legal action, or take steps to enhance health and safety. The amount of leave depends on the size of the employer, with smaller employers (1-24 employees) required to provide

up to three days per year, employers with 25 to 99 employees required to provide up to five days per year, and employers with 100 or more employees required to provide up to seven days per year.

Finally, employees of DC government may receive up to 8 weeks of fully paid leave in a 12 month period for the birth or adoption of a child, or to care for a family member with a serious health condition. (For their own health needs or conditions, employees of DC government accrue at least 13 days of fully paid sick leave per year on a full time basis, and part-time employees receive a prorated number of days. This is a separate allotment than the 8 weeks provided under the government's paid family leave benefit.)

## **SIMULATION MODEL**

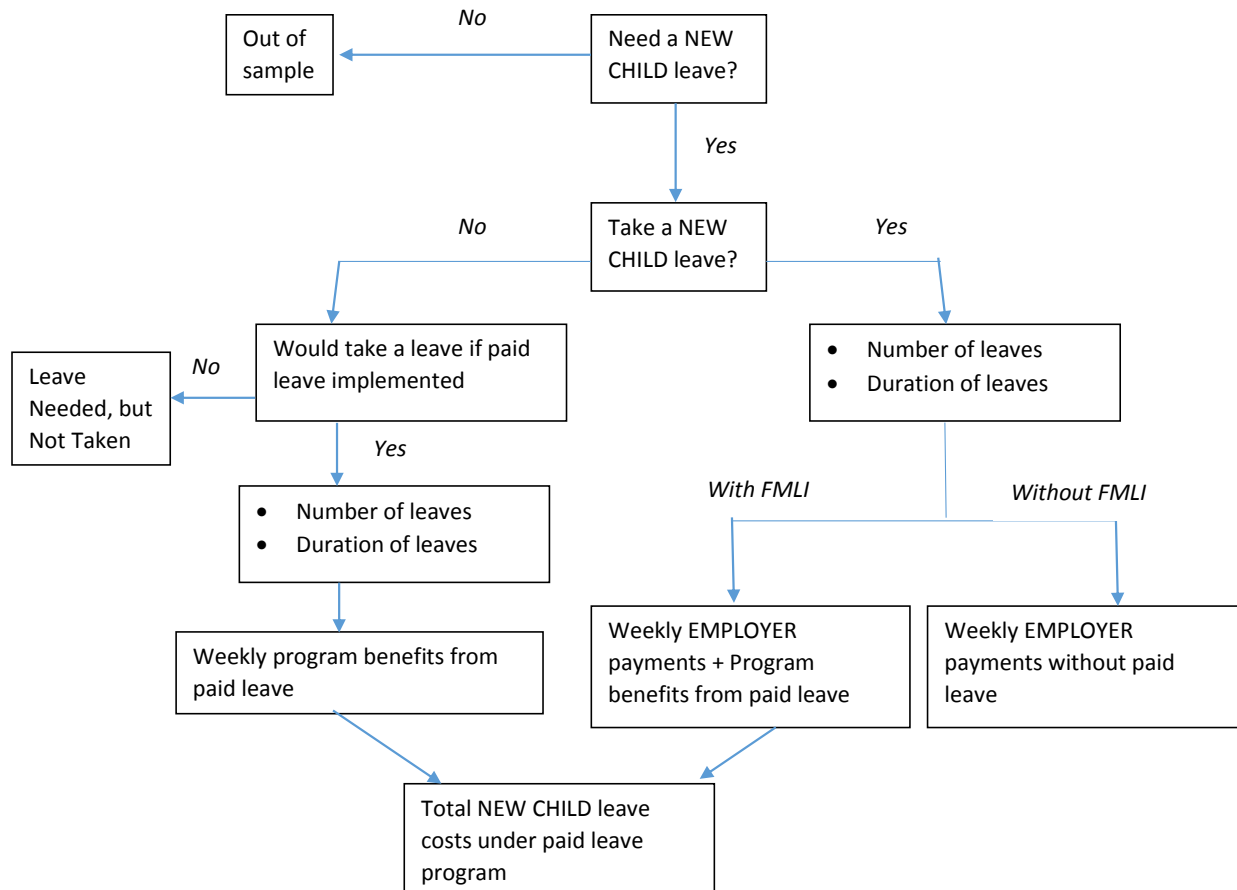
In order to better understand the costs and benefits of expanding paid leave in DC, several scenarios based on state or federal proposals were identified by IWPR and DC DOES for this study. The cost estimation strategy is to apply a simulation model developed by IWPR and researchers at the Labor Research Center, University of Massachusetts, Boston. The model uses the U.S. Department of Labor's (DOL) 2000 Family and Medical Leave Act survey to estimate leave taking behavior and leave characteristics, which are then applied according to work characteristics, to a larger and more current sample of workers in the DC labor force using a sophisticated strategy. This model allows the estimation of the number of leaves, the characteristics of the leaves (length, wage replacement), and the characteristics of workers taking leaves.

Specifically, the model:

- Estimates probabilities of taking a leave (or multiple leaves) by type of leave, eligibility, and important demographic characteristics of the leave-taker.
- Estimates length of leave taking by type of leave and degree to which there is employer pay.
- Simulates paid program leave taking behavior based on family income levels and the existence and level of employer-paid leave benefits.
- Allows for an analysis of leave takers by gender, age, marital status, race, ethnicity, family income, and other demographic characteristics, both in the absence of a program and with a new plan.
- Estimates the amount of lost wages, employer pay to workers while on leave, and paid leave program benefits for all leave takers.

Figure 1 shows a simplified diagram of the complex series of decisions and behaviors that a worker might go through for a single reason that he or she might need to take leave from work: a new child. Each broad reason for needing leave (own health conditions, maternity-related disability, bonding with a new child, children's healthcare needs, spouse's healthcare needs, or parents' healthcare needs) is modeled separately with a similar series of decisions and leave characteristics estimated.

**FIGURE 1: SIMPLIFIED EXAMPLE OF NEW CHILD LEAVES**



## DATA USED

The simulation model is based on:

- 2000 Department of Labor Family and Medical Leave Act Survey data for the estimation of behavioral models
- The 2012-2014 Current Population Survey Annual Social and Economic Supplements for the DC area labor force characteristics, and
- 2013 American Community Survey for adjusting results for the commuting patterns of workers in the DC area by age, race/ethnicity, gender, education, and occupation.

Additional data from the agencies administering family and medical leave insurance programs in California and New Jersey were used for estimating the program take-up rates that are specified by the analyst as an input to the simulation models. In the simulation model, the take-up rate represents the fraction of persons eligible for the paid leave program who will participate. The model allows this fraction to be reduced further based on the program benefit level. The higher the benefit level relative to the next best alternative (which is either employer pay or nothing, if the leaver does not receive any pay), the greater the probability of participating in the program. Claims data from California and New Jersey are also used to estimate program growth over the first five years in DC.

Claims data from California and New Jersey were compared to state level labor force estimates of the workers with the need for family and medical leaves to estimate program participation in those two states. Federal data used for estimating the state-level number of workers with family events that could require leave taking are taken from:

- 2013 American Community Survey to estimate the number of workers with a child under age one in the household for the population at risk of needing a new child leave
- 2012-2014 Current Population Surveys Outgoing Rotation Groups for estimating the number of workers per year who were absent from work during the survey reference week for (1) Own illness/injury/medical problems, (2) Other family/personal obligation, or (3) Maternity leave to estimate the need for leaves for own serious health conditions, family care demands, and maternity-related disability, respectively.

The estimates of take-up rates from this step were used in a second round of simulation models to see how well they predicted the reported claims data from California and New Jersey. Based on this second round of analysis, the take-up rate for own health reasons was increased slightly (from 55 percent to 60 percent). Expected take-up rates for leaves around new children were also increased (from 36 percent to 99 percent for maternity-related disability and from 50 percent to 75 percent for new child bonding). The final take-up rates used in specifying the simulation models estimated for the cost of family and medical leave benefits in DC are shown in Table 1.



| <b>Table 1: Program Take-Up Rates Used as Simulation Model Input</b> |   |
|--|---|
|  | <b>Resulting Estimates to be<br/>Used as Model Input for DC</b> |
| Own Health   | 60%   |
| Maternity-related Disability   | 99%   |
| New Child Bonding  | 75%   |
| Family Care, Children  | 15%   |
| Family Care, Spouse  | 15%   |
| Family Care, Parents   | 15%   |

## POLICY SCENARIOS

For the economic cost modelling, the following policy scenarios were selected by IWPR in consultation with DC Department of Employment Services:

1. Baseline: Current policy environment with unpaid, job-protected leave for many workers under the Federal Family and Medical Leave Act, but no program providing wage replacement
  - Federal FMLA providing up to 12 weeks of unpaid leave for family and medical needs
  - Covered employers of 50 or more and employees who have worked 1,250 hours
2. Model 1. Up to 8 weeks of fully paid family leave similar to the DC government leave policy for all private workers in DC and other employers of DC residents (Federal government or private employers outside of DC)
  - 8 weeks of fully paid leave for family reasons (new children and family care)
  - Federal FMLA eligibility includes individuals working 1,250 hours or more for an employer of 50 or more
3. Model 2. Up to 8 weeks of fully paid family AND MEDICAL leave similar to the DC government leave policy for all private workers in DC and other employers of DC residents (Federal government or private employers outside of DC)
  - 8 weeks of fully paid leave for family or own health reasons
  - Federal FMLA eligibility includes individuals working 1,250 hours or more for an employer of 50 or more
4. Model 3. 12 weeks fully paid Federal FMLA
  - 12 weeks of fully paid leave for family and medical leave. (Assumed that benefits would be reportable for tax purposes, as paid family leave benefits are in California, New Jersey, and Rhode Island. Some temporary disability insurance benefits are not reportable for tax purposes in these states.)
  - Federal FMLA eligibility includes individuals working 1,250 hours or more for an employer of 50 or more
5. Model 4. 16 weeks fully paid family and medical leave under Federal FMLA eligibility criteria
  - 16 weeks of fully paid leave for family and medical leave. (Assumed that benefits would be reportable for tax purposes, as paid family leave benefits are in California, New Jersey,

and Rhode Island. Some temporary disability insurance benefits are not reportable for tax purposes in these states.)

- Federal FMLA eligibility includes individuals working 1,250 hours or more for an employer of 50 or more
6. Model 5. 16 weeks fully paid family and medical leave under DC FMLA eligibility criteria
- 16 weeks of fully paid leave for family and medical leave. (Assumed that benefits would be reportable for tax purposes, as paid family leave benefits are in California, New Jersey, and Rhode Island. Some temporary disability insurance benefits are not reportable for tax purposes in these states.)
  - DC FMLA eligibility includes individuals working 1,000 hours or more for an employer of 20 or more

The number of leaves taken and the number of leaves accessing program benefits are shown in Table 2. Under the current policy, an estimated 72,127 family and medical leaves per year are taken. The results for subsequent model specifications show that when wage replacement is provided, workers will take more leaves. Under the range of proposals modeled, DC's private employers would see an increase of 2,000 to 4,000 leaves per year. Many of the total leaves taken are short and would not qualify for benefits under a one-week waiting period used for model estimates. (Benefit waiting periods are used in the states with paid leave programs.)

| <b>Table 2: Estimated Number of Leaves Taken and Number Accessing Program Benefits Under Different Program Designs, Employed by Private Employers in DC</b> |                           |  |
|---|---------------------------|--|
| <b>DC Private Employers</b>   | <b>Total Leaves Taken</b> | <b>Leaves Accessing Program Benefits</b> |
| <b>Baseline: Current Policy</b>   | 72,127                    | NA                                       |
| <b>Model 1: 8 Weeks Family, Full Pay, Federal FMLA Eligibility</b>  | 73,057                    | 5,176                                    |
| <b>Model 2: 8 Weeks Family and Medical, Full Pay, Federal FMLA Eligibility</b>  | 74,715                    | 15,947                                   |
| <b>Model 3: 12 Weeks, Full Pay, Federal FMLA Eligibility</b>  | 73,798                    | 14,979                                   |
| <b>Model 4: 16 Weeks, Full Pay, Federal FMLA Eligibility</b>  | 73,943                    | 14,739                                   |
| <b>Model 5: 16 Weeks, Full Pay, DC FMLA Eligibility</b>   | 75,277                    | 18,901                                   |

Source: IWPR estimates for private employers in DC based on IWPR/LRC Family and Medical Leave Simulation Model.

\* Eligibility for paid leave benefits in Models 1-4 is based on Federal FMLA (working 1,250 hours for an employer of 50 or more workers); eligibility for benefits in Model 5 is DC FMLA (working 1,000 hours for an employer of 20 or more workers).

Table 3 shows the estimated values of three wage bases using the 2012-2014 Current Population Survey Annual Social and Economic Supplement (CPS), 2013 American Community Survey (ACS), and Quarterly Census of Employment and Wages (QCEW). These are used to express program costs relative to the value of earnings to estimate a premium level that would be necessary to pay for the leave benefits.

The first wage base is DC's unemployment insurance taxable earnings calculated as the total of the first \$9,000 of wages paid to each employee. The second wage base is based on Social Security taxable earnings calculated as the total of the wages paid to each employee up to \$118,500. The third wage base is the total of all earnings reported. The CPS provides information on total earnings, number of hours usually worked each week and the number of weeks worked in the year, and an indicator of the total employment for the respondent's employer in the previous year. The ACS is used to adjust the estimates to account for commuting patterns between DC and other states. Finally, the QCEW was used to assist in the estimation of workers employed by employers of 20 or more for Model 5. (The CPS identifies employers by size groups and individuals working for employers of 10 to 49 employees were randomly assigned to 10 to 19 and 20 to 49 based on the proportion of DC employers in each group using the QCEW.)

| <b>Table 3: Estimated Wage Bases (Millions of dollars) for Private Employers in DC and Other Employers of DC Residents</b> |                              |   |                              |   |
|--|------------------------------|---|------------------------------|---|
|  | <b>Federal FMLA Eligible</b> |   | <b>DC FMLA Eligible</b>      |   |
|  |                              | <b>Other Employment of DC Residents (Federal and Private Employers Outside of DC)</b> |                              | <b>Other Employment of DC Residents (Federal and Private Employers Outside of DC)</b> |
| (Millions \$s)   | <b>DC Private Employment</b> |   | <b>DC Private Employment</b> |   |
| DC Unemployment Insurance  | \$3,338.4                    | \$814.9   | \$3,710.7                    | \$869.5   |
| Social Security  | \$23,477.6                   | \$6,800.9   | \$25,103.7                   | \$7,070.3   |
| Total Earnings   | \$27,836.7                   | \$8,026.3   | \$29,793.2                   | \$8,357.6   |

Source: IWPR analysis of 2012-2014 Current Population Survey Annual Social and Economic Supplement.

## RESULTS

The costs of leaves taken under the current status quo and the five alternative policy scenarios are shown in Tables 4-9 along with their distribution of the cost across employers, employees, and a proposed paid leave program. Tables 4-9 show the costs for leaves taken from private employment based in DC in the top panel and the costs for other leaves DC residents might take when employed by the Federal government or an employer outside of the District in the lower panel. The discussion focuses on the costs of family and medical leave for DC private employees. Costs of each are shown in millions of dollars and as a percentage of the three taxable wage bases (see Table 3 for taxable wage bases). (DC government employees have not been included in any of the cost estimates even when the proposed policy (e.g., Models 4 or 5) might provide more leave than they receive under current benefit programs.)

Table 4 estimates the number of leaves and total costs by type of leave under current policies for DC private employers and other employers of DC residents. The majority of leaves are for the worker's own health and these leaves account for the majority of the leave costs. Private DC employees generate leave time valued at \$538.5 million and of this their employers are providing \$123.3 million (about 23 percent) in wage benefits within a calendar year. DC residents working for other types of employers

(Federal government or employers outside the District) take leave valued at \$120.7 million annually and a similar share is paid by employers as wages, \$29.1 million.

| <b>Table 4: Number of Leaves and Total Costs by Type of Leave Under Current Policies for DC Private Employers and Other Employers of DC Residents. (Millions \$s)</b> |            |                     |             |            |
|---|------------|---------------------|-------------|------------|
| <b>DC Private Employers</b>   | Own Health | Maternity & Bonding | Family Care | All Leaves |
| <b>Total Leaves</b>   | 37,582     | 13,164              | 21,381      | 72,127     |
| <b>Total Leaves Lasting One Week or More</b>  | 26,468     | 9,490               | 9,231       | 45,190     |
| <b>Number Receiving Program Benefits</b>  | NA         | NA                  | NA          | NA         |
| <b>Total Annual Cost (millions)</b>   |            |                     |             |            |
| Program Benefits  | \$0.0      | \$0.0               | \$0.0       | \$0.0      |
| Employer Wage Benefits  | \$76.0     | \$27.8              | \$19.5      | \$123.3    |
| Employee Uncompensated Time   | \$263.3    | \$104.4             | \$47.5      | \$415.2    |
| Total Benefit Cost  | \$339.3    | \$132.2             | \$66.9      | \$538.5    |
| <b>Benefit Cost as a Percent of UI Earnings*</b>  | 0.00%      | 0.00%               | 0.00%       | 0.00%      |
| <b>Benefit Cost as a Percent of SS Earnings*</b>  | 0.00%      | 0.00%               | 0.00%       | 0.00%      |
| <b>Benefit Cost as a Percent of Total Earnings*</b>   | 0.00%      | 0.00%               | 0.00%       | 0.00%      |
| <b>Other Employers of DC Residents</b>  | Own Health | Maternity & Bonding | Family Care | All Leaves |
| <b>Total Leaves</b>   | 7,239      | 1,910               | 4,306       | 13,455     |
| <b>Total Leaves Lasting One Week or More</b>  | 5,087      | 1,326               | 1,828       | 8,241      |
| <b>Number Receiving Program Benefits</b>  | NA         | NA                  | NA          | NA         |
| <b>Total Annual Cost (millions)</b>   |            |                     |             |            |
| Program Benefits  | \$0.0      | \$0.0               | \$0.0       | 0.00       |
| Employer Wage Benefits  | 19.497     | 4.993               | 4.571       | 29.06      |
| Employee Uncompensated Time   | 61.292     | 17.932              | 12.396      | 91.62      |
| Total   | \$80.8     | \$22.9              | \$17.0      | 120.68     |
| <b>Benefit Cost as a Percent of UI Earnings*</b>  | 0.00%      | 0.00%               | 0.00%       | 0.00%      |
| <b>Benefit Cost as a Percent of SS Earnings*</b>  | 0.00%      | 0.00%               | 0.00%       | 0.00%      |
| <b>Benefit Cost as a Percent of Total Earnings*</b>   | 0.00%      | 0.00%               | 0.00%       | 0.00%      |

Source: IWPR estimates for private employers in DC based on IWPR/LRC Family and Medical Leave Simulation Model. Assumes no paid leave program in DC, but that some employers do provide paid leave.

Table 5 simulates leave taking and costs under a program similar to family leave provided to DC government employees (Model 1). It estimates costs for leave if private DC employers and other employers of DC residents provided 8 weeks of fully paid family leave for bonding with a new child or providing care to other family members. That is, the zeros shown for leaves taken and benefit cost of leave under “Own Health” are due to the program design that does not cover leaves for this reason. Under this proposal, program benefits would replace about 5.7 percent of the total cost of leaves taken. The benefits are the equivalent of 0.97 percent of DC’s unemployment insurance (UI) earnings base and about 0.14 percent of Social Security taxable earnings and 0.12 percent of total earnings.

**Table 5: Number of Leaves and Total Costs by Type of Leave for Up to 8 Weeks of Fully Paid Family Leave for DC Private Employers and Other Employers of DC Residents. (Model 1)**

| <b>DC Private Employers</b>                         | Own Health | Maternity & Bonding | Family Care | All Leaves |
|---|------------|---------------------|-------------|------------|
| <b>Total Leaves</b>                                 | 36,969     | 13,684              | 22,404      | 73,057     |
| <b>Total Leaves Lasting One Week or More</b>        | 25,988     | 9,583               | 9,625       | 45,196     |
| <b>Number Receiving Program Benefits</b>            | NA         | 4,428               | 748         | 5,176      |
| <b>Mean Duration of Benefit Receipt (Days)</b>      | NA         | 28.0                | 12.6        | 25.8       |
| <b>Total Annual Cost (millions)</b>                 |            |                     |             |            |
| Program Benefits                                    | \$0.0      | \$28.5              | \$2.3       | \$30.8     |
| Employer Wage Benefits                              | \$49.1     | \$15.7              | \$16.6      | \$81.3     |
| Employee Uncompensated Time                         | \$288.0    | \$82.1              | \$55.8      | \$425.8    |
| Total   | \$337.1    | \$126.3             | \$74.6      | \$537.9    |
| <b>Benefit Cost as a Percent of UI Earnings*</b>    | 0.00%      | 0.90%               | 0.07%       | 0.97%      |
| <b>Benefit Cost as a Percent of SS Earnings*</b>    | 0.00%      | 0.13%               | 0.01%       | 0.14%      |
| <b>Benefit Cost as a Percent of Total Earnings*</b> | 0.00%      | 0.11%               | 0.01%       | 0.12%      |
| <b>Other Employers of DC Residents</b>              | Own Health | Maternity & Bonding | Family Care | All Leaves |
| <b>Total Leaves</b>                                 | 7,529      | 1,916               | 4,479       | 13,924     |
| <b>Total Leaves Lasting One Week or More</b>        | 5,282      | 1,320               | 1,898       | 8,500      |
| <b>Number Receiving Program Benefits</b>            | NA         | 710                 | 123         | 833        |
| <b>Mean Duration of Benefit Receipt (Days)</b>      | NA         | 30.3                | 10.9        | 27.4       |
| <b>Total Annual Cost (millions)</b>                 |            |                     |             |            |
| Program Benefits                                    | \$0.0      | \$7.3               | \$0.5       | \$7.8      |
| Employer Wage Benefits                              | \$12.1     | \$3.0               | \$4.6       | \$19.7     |
| Employee Uncompensated Time                         | \$71.9     | \$16.4              | \$16.4      | \$104.8    |
| Total   | \$84.1     | \$26.7              | \$21.6      | \$132.3    |
| <b>Benefit Cost as a Percent of UI Earnings*</b>    | 0.00%      | 0.94%               | 0.06%       | 1.00%      |
| <b>Benefit Cost as a Percent of SS Earnings*</b>    | 0.00%      | 0.11%               | 0.01%       | 0.12%      |
| <b>Benefit Cost as a Percent of Total Earnings*</b> | 0.00%      | 0.10%               | 0.01%       | 0.10%      |

Source: IWPR estimates for private employers in DC based on IWPR/LRC Family and Medical Leave Simulation Model. Fully paid leave for up to 8 weeks for family care needs or new child bonding. Benefit eligibility determined by Federal FMLA. \* Benefit costs as a percent of taxable payroll include 5 percent of estimated benefits for administrative costs.

Re-estimating the simulations in Table 5, but including leaves taken for a worker's own health needs (Model 2), results in the costs shown in Table 6. Including leaves for the worker's own health increases the estimated cost of providing benefits to private DC employees from \$30.8 million to \$93.6 million. The cost of leave benefits is equivalent to about 2.9 percent of UI taxable earnings for private DC employers and 3.3 percent for other employers of DC residents. Program benefits under this proposal

would require revenue equivalent to about 0.42 percent of taxable earnings up to the Social Security maximum (\$118,500) or 0.35 percent of all earnings reported by covered workers.

| <b>Table 6: Number of Leaves and Total Costs by Type of Leave for Up to 8 Weeks of Fully Paid Family and Medical Leave for DC Private Employers and Other Employers of DC Residents (Model 2).</b> |            |                     |             |            |
|--|------------|---------------------|-------------|------------|
| <b>DC Private Employers</b>  | Own Health | Maternity & Bonding | Family Care | All Leaves |
| <b>Total Leaves</b>  | 38,234     | 13,727              | 22,755      | 74,715     |
| <b>Total Leaves Lasting One Week or More</b>   | 27,014     | 9,881               | 9,566       | 46,461     |
| <b>Number Receiving Program Benefits</b>   | 10,579     | 4,616               | 752         | 15,947     |
| <b>Mean Duration of Benefit Receipt (Days)</b>   | 22.4       | 27.6                | 13.0        | 23.4       |
| <b>Total Annual Cost (millions)</b>  |            |                     |             |            |
| Program Benefits   | \$60.3     | \$30.6              | \$2.7       | \$93.6     |
| Employer Wage Benefits   | \$51.1     | \$17.4              | \$17.8      | \$86.3     |
| Employee Uncompensated Time  | \$235.1    | \$87.8              | \$55.4      | \$378.3    |
| Total  | \$346.5    | \$135.8             | \$75.9      | \$558.2    |
| <b>Benefit Cost as a Percent of UI Earnings*</b>   | 1.90%      | 0.96%               | 0.08%       | 2.94%      |
| <b>Benefit Cost as a Percent of SS Earnings*</b>   | 0.27%      | 0.14%               | 0.01%       | 0.42%      |
| <b>Benefit Cost as a Percent of Total Earnings*</b>  | 0.23%      | 0.12%               | 0.01%       | 0.35%      |
| <b>Other Employers of DC Residents</b>   | Own Health | Maternity & Bonding | Family Care | All Leaves |
| <b>Total Leaves</b>  | 7,552      | 1,903               | 4,540       | 13,995     |
| <b>Total Leaves Lasting One Week or More</b>   | 5,400      | 1,326               | 1,968       | 8,695      |
| <b>Number Receiving Program Benefits</b>   | 2,311      | 776                 | 148         | 3,235      |
| <b>Mean Duration of Benefit Receipt (Days)</b>   | 22.8       | 29.7                | 11.1        | 24.0       |
| <b>Total Annual Cost (millions)</b>  |            |                     |             |            |
| Program Benefits   | \$17.0     | \$7.8               | \$0.7       | \$25.5     |
| Employer Wage Benefits   | \$12.6     | \$2.7               | \$4.2       | \$19.5     |
| Employee Uncompensated Time  | \$60.5     | \$15.0              | \$12.2      | \$87.7     |
| Total  | \$90.2     | \$25.5              | \$17.1      | \$132.8    |
| <b>Benefit Cost as a Percent of UI Earnings*</b>   | 2.19%      | 1.01%               | 0.09%       | 3.29%      |
| <b>Benefit Cost as a Percent of SS Earnings*</b>   | 0.26%      | 0.12%               | 0.01%       | 0.39%      |
| <b>Benefit Cost as a Percent of Total Earnings*</b>  | 0.22%      | 0.10%               | 0.01%       | 0.33%      |

Source: IWPR estimates for private employers in DC based on IWPR/LRC Family and Medical Leave Simulation Model. Fully paid leave for up to 8 weeks for own health conditions, family care needs, or new child bonding. Benefit eligibility determined by Federal FMLA. \* Benefit costs as a percent of taxable payroll include 5 percent of estimated benefits for administrative costs.

Table 7 models a proposal for providing full wage replacement for all eligible leave taken under the Federal FMLA, up to 12 weeks annually (Model 3). Full wage benefits were specified rather than partial, such as two-thirds under the Federal FAMILY Act, under the assumption that benefits paid for

family leave might be reportable for tax purposes as they are in California, New Jersey, and Rhode Island. (Benefits paid under the states' disability programs may not be considered taxable under some circumstances.) The cost for family and medical leave benefits paid to DC private workers for 12 weeks of leave under Model 3 (\$114.0 million) are \$20.4 million more than for 8 weeks of leave under Model 2

| <b>Table 7: Number of Leaves and Total Costs by Type of Leave for Up to 12 Weeks of Fully Paid Family and Medical Leave for DC Private Employers and Other Employers of DC Residents (Model 3).</b> |            |                     |             |            |
|---|------------|---------------------|-------------|------------|
| <b>DC Private Employers</b>   | Own Health | Maternity & Bonding | Family Care | All Leaves |
| <b>Total Leaves</b>   | 37,709     | 13,615              | 22,475      | 73,798     |
| <b>Total Leaves Lasting One Week or More</b>  | 26,104     | 9,861               | 9,844       | 45,809     |
| <b>Number Receiving Program Benefits</b>  | 9,708      | 4,568               | 702         | 14,979     |
| <b>Mean Duration of Benefit Receipt (Days)</b>  | 27.4       | 36.2                | 15.5        | 29.5       |
| <b>Total Annual Cost (millions)</b>   |            |                     |             |            |
| Program Benefits  | \$69.5     | \$41.6              | \$2.9       | \$114.0    |
| Employer Wage Benefits  | \$51.6     | \$17.1              | \$18.5      | \$87.2     |
| Employee Uncompensated Time   | \$230.3    | \$83.3              | \$56.3      | \$369.9    |
| Total   | \$351.3    | \$142.0             | \$77.8      | \$571.1    |
| <b>Benefit Cost as a Percent of UI Earnings*</b>  | 2.18%      | 1.31%               | 0.09%       | 3.59%      |
| <b>Benefit Cost as a Percent of SS Earnings*</b>  | 0.31%      | 0.19%               | 0.01%       | 0.51%      |
| <b>Benefit Cost as a Percent of Total Earnings*</b>   | 0.26%      | 0.16%               | 0.01%       | 0.43%      |
| <b>Other Employers of DC Residents</b>  | Own Health | Maternity & Bonding | Family Care | All Leaves |
| <b>Total Leaves</b>   | 7,743      | 1,931               | 4,486       | 14,161     |
| <b>Total Leaves Lasting One Week or More</b>  | 5,472      | 1,346               | 1,955       | 8,772      |
| <b>Number Receiving Program Benefits</b>  | 2,248      | 801                 | 161         | 3,210      |
| <b>Mean Duration of Benefit Receipt (Days)</b>  | 27.2       | 37.7                | 16.1        | 29.2       |
| <b>Total Annual Cost (millions)</b>   |            |                     |             |            |
| Program Benefits  | \$19.2     | \$9.4               | \$1.0       | \$29.6     |
| Employer Wage Benefits  | \$13.0     | \$2.8               | \$5.5       | \$21.3     |
| Employee Uncompensated Time   | \$56.5     | \$14.6              | \$14.0      | \$85.1     |
| Total   | \$88.7     | \$26.7              | \$20.4      | \$135.9    |
| <b>Benefit Cost as a Percent of UI Earnings*</b>  | 2.48%      | 1.21%               | 0.12%       | 3.81%      |
| <b>Benefit Cost as a Percent of SS Earnings*</b>  | 0.30%      | 0.14%               | 0.01%       | 0.46%      |
| <b>Benefit Cost as a Percent of Total Earnings*</b>   | 0.25%      | 0.12%               | 0.01%       | 0.39%      |

Source: IWPR estimates for private employers in DC based on IWPR/LRC Family and Medical Leave Simulation Model. Full wage replacement (100 percent) for up to 12 weeks of family and medical leave. Benefit eligibility determined by Federal FMLA. \* Benefit costs as a percent of taxable payroll include 5 percent of estimated benefits for administrative costs.

(\$93.6 million). Under this proposal, benefits would account for about 20 percent of the total value of leaves taken. Benefits paid would require revenues of 3.6 to 3.8 percent of UI taxable earnings, 0.5 percent of Social Security taxable earnings, and 0.4 percent of total earnings for covered workers.

| <b>Table 8: Number of Leaves and Total Costs by Type of Leave for Up to 16 Weeks of Fully Paid Family and Medical Leave for DC Private Employers and Other Employers of DC Residents (Model 4). Eligibility based on Federal FMLA.</b> |                   |                                |                    |                   |
|--|-------------------|--------------------------------|--------------------|-------------------|
| <b>DC Private Employers</b>  | <b>Own Health</b> | <b>Maternity &amp; Bonding</b> | <b>Family Care</b> | <b>All Leaves</b> |
| <b>Total Leaves</b>  | 37,254            | 13,487                         | 23,202             | 73,943            |
| <b>Total Leaves Lasting One Week or More</b>   | 26,175            | 9,757                          | 9,946              | 45,878            |
| <b>Number Receiving Program Benefits</b>   | 9,696             | 4,275                          | 768                | 14,739            |
| <b>Mean Duration of Benefit Receipt (Days)</b>   | 30.8              | 40.9                           | 13.6               | 32.8              |
| <b>Total Annual Cost (millions)</b>  |                   |                                |                    |                   |
| Program Benefits   | \$79.6            | \$41.5                         | \$2.9              | \$124.0           |
| Employer Wage Benefits   | \$48.9            | \$16.6                         | \$19.0             | \$84.5            |
| Employee Uncompensated Time  | \$211.9           | \$75.0                         | \$55.9             | \$342.7           |
| Total  | \$340.4           | \$133.0                        | \$77.9             | \$551.3           |
| <b>Benefit Cost as a Percent of UI Earnings*</b>   | 2.50%             | 1.30%                          | 0.09%              | 3.90%             |
| <b>Benefit Cost as a Percent of SS Earnings*</b>   | 0.36%             | 0.19%                          | 0.01%              | 0.55%             |
| <b>Benefit Cost as a Percent of Total Earnings*</b>  | 0.30%             | 0.16%                          | 0.01%              | 0.47%             |
| <b>Other Employers of DC Residents</b>   | <b>Own Health</b> | <b>Maternity &amp; Bonding</b> | <b>Family Care</b> | <b>All Leaves</b> |
| <b>Total Leaves</b>  | 7,457             | 2,044                          | 4,571              | 14,072            |
| <b>Total Leaves Lasting One Week or More</b>   | 5,272             | 1,421                          | 1,941              | 8,634             |
| <b>Number Receiving Program Benefits</b>   | 2,231             | 788                            | 176                | 3,195             |
| <b>Mean Duration of Benefit Receipt (Days)</b>   | 31.4              | 40.0                           | 15.4               | 32.7              |
| <b>Total Annual Cost (millions)</b>  |                   |                                |                    |                   |
| Program Benefits   | \$23.6            | \$11.0                         | \$1.1              | \$35.7            |
| Employer Wage Benefits   | \$11.8            | \$2.9                          | \$4.8              | \$19.6            |
| Employee Uncompensated Time  | \$52.1            | \$13.8                         | \$14.4             | \$80.4            |
| Total  | \$87.6            | \$27.8                         | \$20.3             | \$135.6           |
| <b>Benefit Cost as a Percent of UI Earnings*</b>   | 3.04%             | 1.42%                          | 0.14%              | 4.60%             |
| <b>Benefit Cost as a Percent of SS Earnings*</b>   | 0.36%             | 0.17%                          | 0.02%              | 0.55%             |
| <b>Benefit Cost as a Percent of Total Earnings*</b>  | 0.31%             | 0.14%                          | 0.01%              | 0.47%             |

Source: IWPR estimates for private employers in DC based on IWPR/LRC Family and Medical Leave Simulation Model. Full wage replacement (100 percent) for up to 16 weeks of family and medical leave. Benefit eligibility determined by **Federal FMLA**. \* Benefit costs as a percent of taxable payroll include 5 percent of estimated benefits for administrative costs.



Table 8 models a proposal for providing full wage replacement for all eligible leave taken under the Federal FMLA, up to 16 weeks annually (Model 4). Full wage benefits were specified as in Model 3. The cost for family and medical leave benefits paid to DC private workers for 16 weeks of leave under Model 4 (\$124.0 million) are \$30.4 million more than for 8 weeks of leave under Model 2 (\$93.6 million). Under this proposal, benefits would account for about 23 percent of the total value of leaves taken. Benefits paid to covered workers would require revenues of 3.9 to 4.6 percent of UI taxable earnings, 0.55 percent of Social Security taxable earnings, and 0.47 percent of total earnings.

Table 9 models a proposal for providing full wage replacement for all eligible leave taken under the DC FMLA, up to 16 weeks annually (Model 5). While Federal FMLA does not cover about 40 percent of workers (Klerman et al. 2012), based on the distribution of DC's workforce by firm size in the QCEW, nearly half of workers excluded workers under Federal FMLA would be covered under DC's FMLA. Full wage benefits for up to 16 weeks were specified as in Model 4. Compared with Model 4, more than 4,000 additional leaves would be eligible and take-up program benefits (18,901 v. 14,739). The cost for family and medical leave benefits paid to DC private workers for 16 weeks of leave under Model 5 (\$150.9 million) are \$26.9 million more than for 16 weeks of leave under Model 4 (\$124.0 million). Under this proposal, benefits would account for about 27 percent of the total value of leaves taken. Benefits paid would require revenues of 4.3 to 4.5 percent of UI taxable earnings, 0.56 to 0.63 percent of Social Security taxable earnings, and 0.47 to 0.53 percent of total earnings reported by workers covered by DC FMLA.

**Table 9: Number of Leaves and Total Costs by Type of Leave for Up to 16 Weeks of Fully Paid Family and Medical Leave for DC Private Employers and Other Employers of DC Residents (Model 5). Eligibility based on DC FMLA.**

| <b>DC Private Employers</b>                         | <b>Own Health</b> | <b>Maternity &amp; Bonding</b> | <b>Family Care</b> | <b>All Leaves</b> |
|---|-------------------|--------------------------------|--------------------|-------------------|
| <b>Total Leaves</b>                                 | 38,428            | 13,900                         | 22,949             | 75,277            |
| <b>Total Leaves Lasting One Week or More</b>        | 26,863            | 9,998                          | 9,699              | 46,560            |
| <b>Number Receiving Program Benefits</b>            | 11,867            | 6,026                          | 1,008              | 18,901            |
| <b>Mean Duration of Benefit Receipt (Days)</b>      | 30.9              | 40.6                           | 16.5               | 33.2              |
| <b>Total Annual Cost (millions)</b>                 |                   |                                |                    |                   |
| Program Benefits                                    | \$92.8            | \$54.0                         | \$4.1              | \$150.9           |
| Employer Wage Benefits                              | \$48.2            | \$15.1                         | \$16.9             | \$80.1            |
| Employee Uncompensated Time                         | \$211.4           | \$67.4                         | \$52.0             | \$330.8           |
| Total   | \$352.4           | \$136.5                        | \$73.0             | \$561.9           |
| <b>Benefit Cost as a Percent of UI Earnings*</b>    | 2.63%             | 1.53%                          | 0.12%              | 4.27%             |
| <b>Benefit Cost as a Percent of SS Earnings*</b>    | 0.39%             | 0.23%                          | 0.02%              | 0.63%             |
| <b>Benefit Cost as a Percent of Total Earnings*</b> | 0.33%             | 0.19%                          | 0.01%              | 0.53%             |
| <b>Other Employers of DC Residents</b>              | <b>Own Health</b> | <b>Maternity &amp; Bonding</b> | <b>Family Care</b> | <b>All Leaves</b> |
| <b>Total Leaves</b>                                 | 7,764             | 1,930                          | 4,692              | 14,386            |
| <b>Total Leaves Lasting One Week or More</b>        | 5,340             | 1,385                          | 1,928              | 8,653             |
| <b>Number Receiving Program Benefits</b>            | 2,447             | 963                            | 224                | 3,634             |
| <b>Mean Duration of Benefit Receipt (Days)</b>      | 29.7              | 42.4                           | 13.7               | 32.1              |
| <b>Total Annual Cost (millions)</b>                 |                   |                                |                    |                   |
| Program Benefits                                    | \$23.9            | \$12.5                         | \$1.1              | \$37.5            |
| Employer Wage Benefits                              | \$13.0            | \$2.3                          | \$4.4              | \$19.7            |
| Employee Uncompensated Time                         | \$56.0            | \$12.0                         | \$12.3             | \$80.3            |
| Total   | \$93.0            | \$26.8                         | \$17.7             | \$137.5           |
| <b>Benefit Cost as a Percent of UI Earnings*</b>    | 2.89%             | 1.51%                          | 0.13%              | 4.53%             |
| <b>Benefit Cost as a Percent of SS Earnings*</b>    | 0.36%             | 0.19%                          | 0.02%              | 0.56%             |
| <b>Benefit Cost as a Percent of Total Earnings*</b> | 0.30%             | 0.16%                          | 0.01%              | 0.47%             |

Source: IWPR estimates for private employers in DC based on IWPR/LRC Family and Medical Leave Simulation Model. Full wage replacement (100 percent) for up to 16 weeks of family and medical leave. Benefit eligibility determined by DC FMLA. \* Benefit costs as a percent of taxable payroll include 5 percent of estimated benefits for administrative costs.

When estimating leave behaviors and characteristics using the IWPR/LRC simulation model there are several decision points during the estimation of leave taking behaviors, such as taking a leave when experiencing a qualifying event, where a statistical model for the probability of deciding “yes” is applied using a function of the person’s demographic characteristics. The estimated probability is compared to a randomly selected number between zero and one. If the estimated probability is greater than the random number, the decision is “yes, leave is taken” and the model continues simulating the leave’s characteristics, such as duration and costs. This is the essence of simulation, but subsequent runs using similar policy design inputs can vary slightly. For example, comparing leaves for “Own Health” Tables 4 and 5, under both current policies and 8 weeks paid leave for family reasons there is no leave program for workers’ own health needs, but the estimation results vary a small amount.

Other differences across models are more systematic and stem from the underlying logic of the model. For example, the model specifications anticipate that more leaves will be taken when there is wage replacement available. However, the characteristics of the additional leaves is less clear. On the one hand, offering a new paid leave benefit might lead to a longer leave duration if some portion of the total time taken is paid through a newly available benefit program. On the other hand, the additional leaves could be shorter, on average, and reduce the total cost of benefit. For example, Baum and Ruhm (2014) find that California’s paid family leave program increased leave-taking for bonding with a new child, but mothers use two to three additional weeks of leave and fathers just under one additional week. If more new fathers take bonding leaves following the birth of a child relative to new mothers, the total cost of leaves could decrease.

While the total value of leaves taken by DC private workers is over \$535 million annually, it is important to look at how that figure is distributed. First, the majority (77 percent) of leave costs are borne by workers currently; under the four alternative leave policy scenarios modeled that include both family and medical leave, the share of leave costs that consists of uncompensated wages declines in each of the programs and is below 60 percent in the most generous (Model 5). Second, even in the current policy environment, DC’s private employers are spending more than \$123 million compensating workers taking family and medical leaves. The amount being paid directly by employers as wages also declines across the policy proposals modeled. Third, the range of leave costs covered by the proposed benefits ranges from 6 percent of total leave costs to around 55 percent of total leave costs. Compared with the estimated value of uncompensated leave time taken under current law, under the alternative leave policy scenarios uncompensated leave costs are reduced between 5 percent and 20 percent for private DC employees. Private DC employees bear the lion’s share of total leave costs under all scenarios.

## **START-UP AND ADMINISTRATIVE COSTS**

So far the costs estimated have focused on the costs of providing wage replacement for workers on leave under alternative policy scenarios. These costs could be distributed between employers, employees, and other possible groups with different implications for total costs.

Under the logic of the first alternative policy scenario (Model 1), based on the current policy for DC government workers, the eight weeks of leave provided would be paid for by employers as regular wages. In terms of minimizing start-up costs and ongoing administration, this would be the least

expensive route to program administration, but is likely to face political opposition by employers and their representatives.

In the three states that have added paid family leave to existing temporary disability insurance (TDI) systems (California, New Jersey, and Rhode Island), the costs for the new leave are paid for by workers through a social insurance system with a payroll tax. (In California and Rhode Island, TDI is also paid for by the workers; in New Jersey employers contribute to TDI.) Based on the results for DC, all of the alternative policies examined would cost less than one percent of payrolls based on either all earnings or earnings up to the Social Security maximum (\$118,500). Taxing higher earners at the same rate as lower earners would result in a more progressive program.

For governments like DC's – without a TDI system to expand for covering family leaves – start up and administration need to be built from scratch. Several states without existing TDI systems have recently had proposals for paid family and medical leave insurance. Recent fiscal notes for new programs have recently been issued in Washington and Connecticut.

During an approximately two-year start-up phase (2016-17), Washington Employment Security Department (WESD) estimates that system configuration and procedure planning would cost \$13.2 million including equipment procurement and 56,000 hours of software development. Once the program is fully functional, they estimate \$61 million for administration for the first four years or approximately \$15.3 million per year. Washington State plans to pay for these costs by collecting premiums by a payroll tax that phases in at 0.2 percent of payroll between July 2016 and December 2016 and then increases to 0.4 percent of payroll in January 2018 when benefits are scheduled to begin to be paid. The payroll tax is paid by the employer, but the current Washington state bills (HB 1273 and SB 5459) permit the employer to deduct half of the required amount from the employee's pay. Looking at the monthly average earnings generated by DC's workforce, in total or up to the Social Security maximum, start-up costs at the level estimated by Washington state could be paid for in 4 months at 0.2 percent of payroll and 2 months at 0.4 percent.

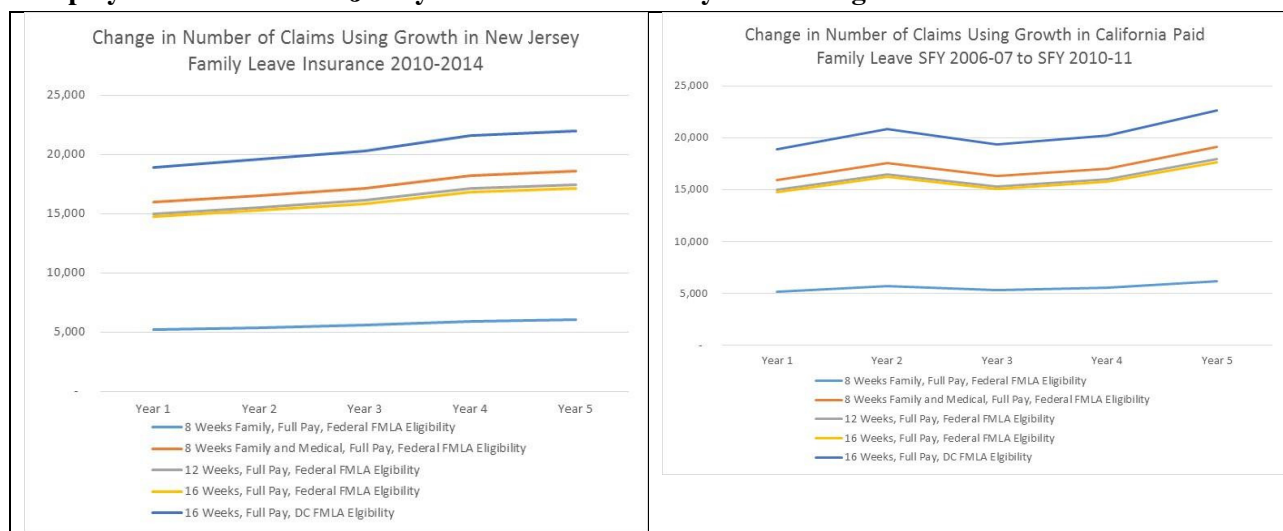
Connecticut estimates lower start-up costs in the first year, \$6 million, and higher annualized administrative costs starting in the second, \$16.9 million. Again, Connecticut's workforce is 2.2 times larger than DC's suggesting a pro-rated administrative cost for DC of \$7.7 million. Connecticut's fiscal note is much less detailed than Washington's. Expenses counted in year one in Washington may have been included in subsequent years in Connecticut.

To estimate the administrative costs as a percent of total benefits, estimates of the cost for providing the proposed leave benefits were estimated using the simulation model for the Washington state bills (HB 1273 and SB 5459). Dividing the WESD estimated annual average administrative costs by the model-based estimate for total cost of leave benefits suggests that 4.6 percent of benefits would be required to administer their proposed family and medical leave insurance program. For the DC estimates calculated as a share of taxable earnings under three bases, administrative costs were rounded up to 5 percent.

## PROJECTED GROWTH

Data from the early experiences of California and New Jersey state plans are used to estimate program growth during the first five years following family leave insurance implementation. The family leave insurance growth is used in both states to try to capture the early growth as the program became more familiar to employers and workers. Both states began providing family leave insurance as an expansion of disability insurance that had been operating for decades. The growth in both claims and cost of benefits were applied to the DC alternative policy model results. In general, New Jersey's program seems to have grown more slowly than California's, so the experience of these two states suggests a range of trajectories.

**Figure 1: Estimated Growth in Number of Family and Medical Leave Claims for DC Private Employers Based on New Jersey and California Family Leave Programs**



**Figure 2: Estimated Growth in Total Cost of Family and Medical Leave Benefits for DC Private Employers Based on New Jersey and California Family Leave Programs**

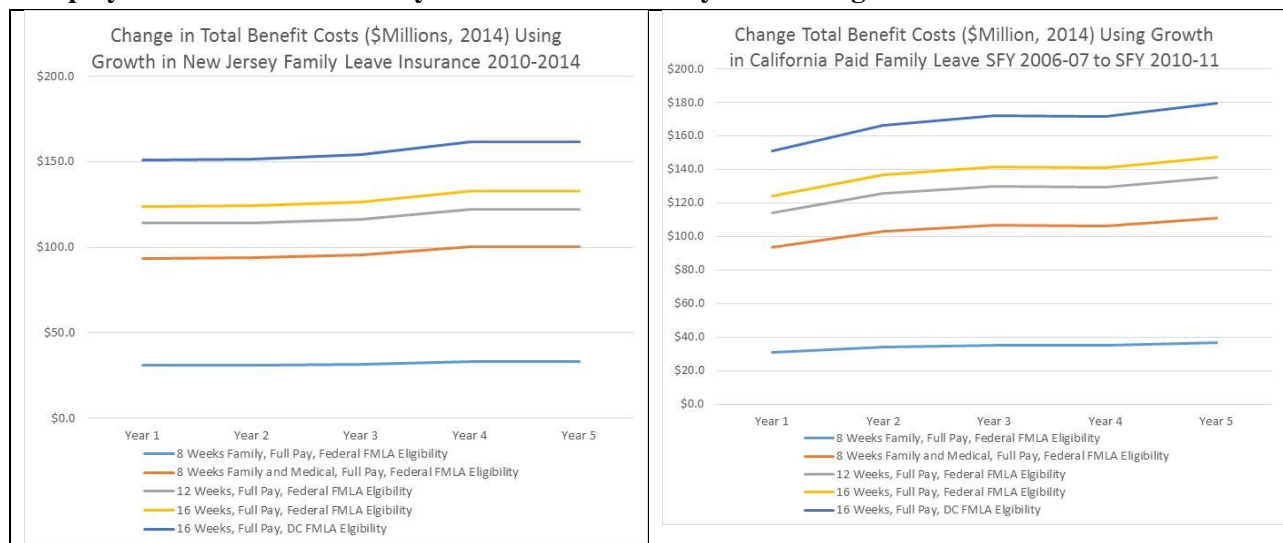


Figure 1 shows the growth in total number of claims DC might expect under growth like New Jersey, on the left, and California, on the right. New Jersey's Family Leave Insurance program began paying benefits in July 2009, immediately following the Great Recession. The growth based on full calendar years 2010-2014 are used for measuring an increase in claims in a fairly steady, linear path resulting in a 16 percent increase over 5 years. The data from California's Paid Family Leave program statistics are reported for the state's fiscal year that runs from July 1 to June 30 and 2006-07 to 2010-11 were used. This period includes the great recession and recovery and results in a 20 percent increase in claims across the period.

Figure 2 shows the increase in program costs for providing family and medical leave benefits in DC based on previous state experiences. Year-over-year growth rates were estimated using the cost of benefit claims adjusted to constant 2014 dollars using the CPI-U-RS. Costs grow more slowly in New Jersey, 7.2 percent over 5 years, compared with California, 19 percent over the period. Under either scenario, benefits and administrative costs (estimated as 5 percent of total benefits) remain under one percent of taxable payroll up to the Social Security maximum for all 5 alternative policy models.

## **DISTRIBUTIONAL ANALYSIS**

Table 10 describes distributional impacts of the five alternative policy scenarios on DC private employees measured according as the estimated share of workers that receive no compensation while taking family and medical leaves. The model results suggest that having a policy that covers only family reasons (second column) might shift employers' benefit offerings and workers' leave taking behaviors in ways that increase the incidence of uncompensated leaves. Comparing the current policy environment (first column) to 16 weeks of fully paid DC FMLA proposal (last column) shows that vulnerable workers are expected to experience the largest drops in uncompensated leaves; for example, the incidence of uncompensated leave declines by 5.5 percentage points for workers with a high school degree or less, 5.1 percentage points for part-time workers, and 7.1 percentage points for workers in families with incomes below \$25,000. Comparing the similar benefit structures included models 4 and 5 suggests that almost half of these gains result from the greater access to program benefits workers would have under DC's FMLA than under Federal FMLA. However, even the employer size and work hours requirements in DC's FMLA will leave out many workers.

**Table 10: Percent of Leaves with No Compensation During Family and Medical Leaves for Private Workers in DC**

| <b>DC Private Employers</b>   | <b>Baseline: Current Policy</b> | <b>Model 1: 8 Weeks Family, Full Pay, Federal FMLA Eligibility</b> | <b>Model 2: 8 Weeks Family and Medical, Full Pay, Federal FMLA Eligibility</b> | <b>Model 3: 12 Weeks, Full Pay, Federal FMLA Eligibility</b> | <b>Model 4: 16 Weeks, Full Pay, Federal FMLA Eligibility</b> | <b>Model 5: 16 Weeks, Full Pay, DC FMLA Eligibility</b> |
|-------------------------------|---------------------------------|--|--|--|--|---|
| <b>Total</b>                  | 26.9%                           | 28.7%  | 25.2%  | 26.0%  | 25.5%  | 24.4%   |
| <b>Gender</b>                 |                                 |  |  |  |  |   |
| Men                           | 22.6%                           | 24.9%  | 21.8%  | 23.0%  | 22.4%  | 22.0%   |
| Women                         | 29.9%                           | 31.3%  | 27.6%  | 28.1%  | 27.7%  | 26.0%   |
| <b>Race &amp; Ethnicity</b>   |                                 |  |  |  |  |   |
| White                         | 21.1%                           | 23.2%  | 20.5%  | 21.3%  | 20.9%  | 20.3%   |
| Black                         | 31.2%                           | 32.9%  | 28.3%  | 29.4%  | 29.1%  | 26.9%   |
| Hispanic                      | 40.3%                           | 40.2%  | 37.2%  | 37.9%  | 35.8%  | 34.5%   |
| Other/Mixed                   | 22.6%                           | 25.8%  | 21.8%  | 21.8%  | 22.7%  | 22.6%   |
| <b>Age</b>                    |                                 |  |  |  |  |   |
| Less than 35                  | 34.2%                           | 34.5%  | 31.7%  | 32.2%  | 31.9%  | 29.4%   |
| 35-44                         | 23.0%                           | 25.3%  | 21.6%  | 22.2%  | 21.9%  | 21.7%   |
| 45-54                         | 21.6%                           | 25.2%  | 20.5%  | 23.1%  | 21.7%  | 20.5%   |
| 55+                           | 26.7%                           | 27.8%  | 24.8%  | 24.5%  | 24.9%  | 24.3%   |
| <b>Educational Attainment</b> |                                 |  |  |  |  |   |
| HS or Less                    | 39.8%                           | 41.3%  | 36.0%  | 37.6%  | 38.2%  | 34.3%   |
| Some College or Associates    | 33.8%                           | 34.9%  | 30.9%  | 31.8%  | 30.9%  | 29.7%   |
| Bachelors                     | 21.0%                           | 24.4%  | 20.0%  | 21.2%  | 20.5%  | 19.7%   |
| Postgraduate                  | 17.1%                           | 18.6%  | 17.0%  | 17.2%  | 16.7%  | 16.8%   |
| <b>Work Schedule</b>          |                                 |  |  |  |  |   |
| Part-time                     | 46.5%                           | 45.0%  | 44.1%  | 44.4%  | 43.4%  | 41.4%   |
| Full-time                     | 23.3%                           | 25.8%  | 21.9%  | 22.8%  | 22.3%  | 21.6%   |
| <b>Family Income</b>          |                                 |  |  |  |  |   |
| < \$25K                       | 54.4%                           | 54.5%  | 49.4%  | 51.4%  | 52.1%  | 47.3%   |
| \$25K - 49.9K                 | 35.9%                           | 39.0%  | 33.9%  | 34.9%  | 33.5%  | 32.9%   |
| \$50K - 74.9                  | 28.3%                           | 29.6%  | 25.5%  | 27.5%  | 26.6%  | 26.1%   |
| \$75K - 99.9                  | 23.8%                           | 24.8%  | 21.6%  | 22.3%  | 22.4%  | 20.4%   |
| \$100K+                       | 16.5%                           | 18.1%  | 16.3%  | 16.2%  | 16.1%  | 15.6%   |

Source: IWPR estimates for private employers in DC based on IWPR/LRC Family and Medical Leave Simulation Model.

## POTENTIAL POVERTY REDUCTION

While the alternative programs might reduce the share of workers who receive no wage replacement when taking family or medical leave, they do not eliminate it. The loss of income can push some families into poverty. Table 11 suggests that family and medical leave benefits might provide some financial security.

Overall, the rate of poverty for the main sample following the simulation steps is 7.4 percent. The estimates made in column two of Table 11 took the total family income added on the model-based wages paid by the employer while taking leave during the year and subtracted the value of uncompensated leave. This adjusted family income during a leave was compared to the poverty threshold to estimate the poverty rate without benefits. The estimate in the third column adds the value of the paid leave benefits to the adjusted family income calculated in the second and again compares this adjusted family income with benefits to the poverty threshold. These results suggest that benefits would help to keep DC residents out of poverty when they suffer from an illness or injury or need to care for family members with medical needs.

| <b>Table 11: Simulated Poverty Rates Under Alternative Family and Medical Leave Programs for Workers in Living in DC</b> |                                     |                                   |
|--|-------------------------------------|-----------------------------------|
|  | Poverty Rate Without Leave Benefits | Poverty Rates With Leave Benefits |
| <b>Model 1: 8 Weeks Family, Full Pay, Federal FMLA Eligibility</b>   | 10.0%                               | 9.8%                              |
| <b>Model 2: 8 Weeks Family and Medical, Full Pay, Federal FMLA Eligibility</b>   | 9.6%                                | 9.3%                              |
| <b>Model 3: 12 Weeks, Full Pay, Federal FMLA Eligibility</b>   | 10.3%                               | 9.7%                              |
| <b>Model 4: 16 Weeks, Full Pay, Federal FMLA Eligibility</b>   | 9.3%                                | 8.9%                              |
| <b>Model 5: 16 Weeks, Full Pay, DC FMLA Eligibility</b>  | 9.8%                                | 9.2%                              |

Source: IWPR estimates for private employers in DC based on IWPR/LRC Family and Medical Leave Simulation Model.

## IMPROVED CHILD OUTCOMES

According to the Kids Count Data Center, 9.4 percent of babies born in DC are low birth weight, less than 2,500 grams at birth, placing them at elevated risk for developmental problems and disabilities. Stearns (2014) finds that TDI-based paid maternity leave reduced the incidence of low birth weight rates by 5 percent (cited in Bartel et al. 2014). The March of Dimes (2014) estimates that the average cost to businesses of preterm or low birth weight babies during their first year is \$55,393 of which \$54,149 was paid by health plans. (For comparison, care for babies following normal births average \$5,085 during their first year with \$4,389 paid by health plans.)



Table 12 shows the estimated costs that could be saved from reducing the incidence of low birth weight babies in DC by providing paid leave for maternity disability and family bonding leave. Average savings per low birthweight infant are estimated as the cost difference between a normal and low birth weight baby for their first year of care. As the simulation output does not include information on employer-provided health insurance that would be required to attribute savings to employers, the savings are divided between insurers operating in DC, in general, and the remaining share paid by individuals. Total savings range widely from \$150,000 to \$300,000. Most policy alternatives save about \$180,000 per year in health care costs for the first year of the child's life. The expanded benefit coverage under DC's FMLA compared with the Federal FMLA greatly improves the savings on reduced low birth weight baby care costs. The vast majority of these saving do go to DC insurers, but individuals are also benefited.

| <b>Table 12: Estimated Savings from Reducing Low-Weight Births By Implementing Paid Maternity Leave</b> |           |           |             |
|---|-----------|-----------|-------------|
|   | Total     | Insurers  | Individuals |
| <b>Model 1: 8 Weeks Family, Full Pay, Federal FMLA Eligibility</b>                                      | \$178,569 | \$176,624 | \$1,945     |
| <b>Model 2: 8 Weeks Family and Medical, Full Pay, Federal FMLA Eligibility</b>                          | \$178,107 | \$176,167 | \$1,940     |
| <b>Model 3: 12 Weeks, Full Pay, Federal FMLA Eligibility</b>  | \$179,693 | \$177,735 | \$1,957     |
| <b>Model 4: 16 Weeks, Full Pay, Federal FMLA Eligibility</b>  | \$153,436 | \$151,765 | \$1,671     |
| <b>Model 5: 16 Weeks, Full Pay, DC FMLA Eligibility</b>   | \$296,306 | \$293,078 | \$3,228     |

Source: IWPR estimates for private employers in DC based on IWPR/LRC Family and Medical Leave Simulation Model.

## SAVINGS FROM REDUCED PUBLIC ASSISTANCE

Houser and Vartanian (2012) used the National Longitudinal Study of Youth 1997 Cohort to study leave taking. They estimate that, compared with not taking a leave following a child's birth, taking paid leave reduced the total amount of public assistance received in that year by more than \$400 (\$413 for women and \$421 for men) in their sample.

Table 13 estimates how much less public assistance might be accessed in DC following the implementation of a paid family leave program. The estimates are based on leaves taken for new children (maternity-related disability or bonding leaves) that were assigned model-based program benefits during the simulation, but no wages were estimated to have been paid by the employer during the leave. That is, the only wage replacement would be the program benefits.

The first set of columns are the savings for individuals up to age 30. This restriction is based on the age of the NLSY-97 analyzed by Houser and Vartanian (2012). Savings that use the same estimates

level for all individuals taking new child leaves for descriptive purposes are shown under “workers of all ages. It is important to note that the cost savings estimates for “Working for Private DC Employers” and “DC Residents – All Employers” are not exclusive groups in this table. DC residents working for private DC employers are in both columns, so they do not sum to total savings.

The savings from reduced public assistance are fairly similar in magnitude to the savings from reduced low birth weight babies. If new parents over age 30 benefit at the same level as younger parents, the amount of reduced use of public assistance would be nearly doubled.

| <b>Table 13: Estimated Savings from Reduced Public Assistance By Implementing Paid Family and Medical Leave</b> |   |                                     |   |                                     |
|---|---|-------------------------------------|---|-------------------------------------|
|   | <b>Workers Aged 30 or Younger</b>       |                                     | <b>Workers of All Ages</b>              |                                     |
|   | <b>Working for Private DC Employers</b> | <b>DC Residents - All Employers</b> | <b>Working for Private DC Employers</b> | <b>DC Residents - All Employers</b> |
| <b>Model 1: 8 Weeks Family, Full Pay, Federal FMLA Eligibility</b>  | \$170,821                               | \$106,986                           | \$308,877                               | \$159,268                           |
| <b>Model 2: 8 Weeks Family and Medical, Full Pay, Federal FMLA Eligibility</b>                                  | \$160,752                               | \$82,365                            | \$308,818                               | \$141,275                           |
| <b>Model 3: 12 Weeks, Full Pay, Federal FMLA Eligibility</b>  | \$160,690                               | \$95,272                            | \$313,041                               | \$157,661                           |
| <b>Model 4: 16 Weeks, Full Pay, Federal FMLA Eligibility</b>  | \$148,831                               | \$81,418                            | \$267,110                               | \$134,750                           |
| <b>Model 5: 16 Weeks, Full Pay, DC FMLA Eligibility</b>   | \$257,956                               | \$112,920                           | \$492,074                               | \$199,058                           |

Source: IWPR estimates for private employers in DC based on IWPR/LRC Family and Medical Leave Simulation Model.

## **SAVINGS TO EMPLOYERS FROM REDUCED TURNOVER**

According to Boushey and Glynn (2012a) employee turnover is expensive for employers. Across a large number of case studies, they estimate that replacing an employee costs about 21 percent of their annual salary, on average. Having paid leave reduces voluntary job mobility by an average of 5 percent; the effect varies by sex and marital status from three to six percentage points (Cooper and Monheit 1993). Workers who experience a health care crisis are also more likely to return to their employer if they have a paid leave policy—more than twice as likely, in the case of women with heart disease (Earle, Ayanian, and Heymann 2006).

Table 14 uses the simulation model output to calculate savings from paid leave under the five alternative policy scenarios for private DC employers, private businesses outside of DC employing DC residents, and DC residents working for the Federal government. The costs of turnover are estimated as 21 percent of annual earnings for 5 percent of leave takers who would receive a program benefit, but not

wages from their employer, while on leave. Under Models 2-5, DC employers stand to reduce their turnover costs by \$1.6 million to \$2.3 million dollars each year. Taxpayers would save \$250,000 to \$272,000 from reduced turnover in Federal employment for federally employed DC residents receiving benefits were they to be covered and participate in the program.

| <b>Table 14: Estimated Savings to Businesses from Turnover Across Alternative Paid Family and Medical Leave Programs</b> |                             |  |  |
|--|-----------------------------|--|--|
|  | <b>Private DC Employers</b> | <b>DC Residents -- Private Employers</b> | <b>DC Residents -- Federal Employees</b> |
| <b>Model 1: 8 Weeks Family, Full Pay, Federal FMLA Eligibility</b>   | \$543,242                   | \$47,922                                 | \$76,466                                 |
| <b>Model 2: 8 Weeks Family and Medical, Full Pay, Federal FMLA Eligibility</b>   | \$1,739,963                 | \$172,385                                | \$255,339                                |
| <b>Model 3: 12 Weeks, Full Pay, Federal FMLA Eligibility</b>   | \$1,620,708                 | \$176,990                                | \$203,927                                |
| <b>Model 4: 16 Weeks, Full Pay, Federal FMLA Eligibility</b>   | \$1,580,581                 | \$183,740                                | \$272,369                                |
| <b>Model 5: 16 Weeks, Full Pay, DC FMLA Eligibility</b>  | \$2,295,977                 | \$257,334                                | \$269,575                                |

Source: IWPR estimates for private employers in DC based on IWPR/LRC Family and Medical Leave Simulation Model.

## CONCLUSION

Based on the experiences of states that provide paid family and medical leave and the simulation model results reviewed, DC could set up and administer any of the programs examined for less than one percent of payroll. While the costs would be expected to increase, especially in the early year as awareness grows, even at the end of the first five year window, the same low cost would be required to provide wage replacement to workers on leave and support the centralized management of the program.

The program's costs could be borne by employers, workers, or shared. Based on the model results, workers are bearing most of the costs of leaves taken for their own health or the needs of their families. However, employers do provide some workers paid leave. By risk sharing and standardizing the criteria for paid leave eligibility, providing paid leave benefits would appear to play a role in evening the playing field and pushing back against rising inequality among groups of workers.

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